

Message Text

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ACTION NEA-10

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----- 119450

O 091400Z FEB 76

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC IMMEDIATE 3641

C O N F I D E N T I A L JIDDA 960

E.O. 11652: GDS

TAGS: USSAEC, SA

SUBJECT: EMBASSY REVIEW OF PROPOSED JEC PROJECT AGREEMENT ON
DESALINATION DEVELOPMENT

REF (A) STATE 20365, (B) 75 JIDDA 4721, (C) 75 STATE 153448

(D) 75 JIDDA 4541

SUMMARY:

EMBASSY AGREES IT WOULD BE DESIRABLE TO SUBMIT A PROPOSAL ON
DESALTING TO SAUDIS, BUT RELUCTANTLY CONCLUDES THAT THE
DRAFT PROPOSAL PASSED ON TO US IS NOT READY FOR TRANSMISSION
TO THE SAG. WE ARE ASKING THAT USREP NOT REPEAT NOT PRESENT
DRAFT TO SAUDIS UNTIL IT IS CAREFULLY REWORDED AND SOME
QUESTIONS MENTIONED BELOW ARE RESOLVED. END SUMMARY.

1. EMBASSY BELIEVES THAT USG SHOULD ASSIST IN THE DEVEL-
OPMENT OF SAUDI DESALTING CAPACITY. THE SAUDIS WILL SPEND
BILLIONS OF DOLLARS ON THEIR DESALTING EFFORT, AND EVIDENCE
TO DATE IS THAT NOT MUCH WILL BE SPENT IN THE U.S. UNLESS
WE ARE ABLE TO PROVIDE SOME MATERIAL SERVICE OR BREAKTHROUGH
IN TECHNOLOGY. A SOUND, WORKABLE AGREEMENT WOULD BE A
STEP IN THIS DIRECTION. WE DO NOT FIND THE CURRENT DRAFT
PROPOSAL, HOWEVER, TIGHTLY WORDED ENOUGH OR SPECIFIC.
FURTHER, WE BELIEVE SOME ISSUES ARE RAISED WHICH REQUIRE
CLARIFICATION. WE ARE ASKING, THEREFORE, THAT USREP/JECOR
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NOT REPEAT NOT TRANSMIT DRAFT PROPOSAL TO SAUDI JECOR

COORDINATOR NOR TO PRINCE MOHAMMED FOR THE TIME BEING.
DETAILS OF EMBASSY RESERVATIONS AND SUGGESTIONS FOR CHANGE
FOLLOW:

2. USG AS CONTRACT MANAGER: EMBASSY MAY NOT BE CLEAR
ON CURRENT WASHINGTON THINKING RE PROGRAM MANAGEMENT ROLE
FOR USG. THE PROJECT PROPOSAL WHICH WE HAVE SEEN, HOWEVER,
CLEARLY ENVISAGES A MAJOR PROJECT MANAGEMENT ROLE FOR THE
USG. TO WIT, PHASE I OF APPENDIX A STATES USDI WOULD
"PREPARE AND ISSUE THE BIDDING DOCUMENTS, TAKE BIDS, AND
AWARD THE CONSTRUCTION CONTRACT. PREPARE, ISSUE FOR
PROPOSALS, AND AWARD A CONTRACT FOR CONSTRUCTION SUPERVISION."

3. THIS COULD BE GOOD NEWS. WE SUPPORT USG ASSUMPTION OF
PROJECT PROGRAM MANAGEMENT ROLE (SEE REFTTEL D). WE ALSO BELIEVE
THE SAUDIS STILL WANT THE U.S. TO ASSUME SUCH A ROLE.
NEVERTHELESS, REFTTEL C STATED THAT USG WOULD NOT REPEAT
NOT TAKE ON A MANAGEMENT ROLE AND WOULD NOT
SELECT CONTRACTORS NOR SIGN CONTRACTS. PRESENT MINFINANCE,
ABA AL-KHAYL WAS INFORMED OF THIS DECISION ON JUNE 29, 1975
(REFTTEL B). BOTH EMBASSY AND USREP NEED POLICY GUIDELINES ON THIS
ISSUE.

4. USG RESOURCES: THE PROPOSALL DOES NOT MAKE CLEAR THE
ULTIMATE DEGREE TO WHICH USDI WILL COMMIT RESOURCES TO
THIS PROGRAM. WE ARE UNCERTAIN, FOR EXAMPLE, OF USDI
PLANS REGARDING ITS OWN STAFF. WOULD THE THREE POSITIONS
MENTIONED BRIEFLY IN APPENDIX A BE SUFFICIENT? HOW MUCH
STAFF WILL ULTIMATELY BE RECRUITED
FROM OUTSIDE THE USG?

5. LOCATION OF FACILITIES: EMBASSY NOTES NO REPEAT NO
SPECIFIC LANGUAGE REGARDING THE LOCATION OF PHYSICAL
FACILITIES REQUIRED TO COMPLETE THIS PROJECT. WILL THEY
BE IN THE U.S. OR IN SAUDI ARABIA? IS IT ACCEPTABLE TO
THE SAUDIS THAT A MAORITY OF THE RESEARCH BE CONDUCTED
IN THE U.S.? EVEN IF IT WERE ACCEPTABLE THE SAUDIS WOULD
CERTAINLY WANT SOME PHYSICAL STRUCTURE HERE.

6. APPENDIX B MENTIONS THE VTE/MSF PROCESS HFENT IN
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FOUNTAIN VALLEY. PRESIDENT OF ULTRA SYSTEMS, INC. OF
IRVINE, CALIFORNIA RECENTLY VISITED THE EMBASSY AND STATED
HE HAD DISCUSSED THIS FACILITY WITH THE SAUDIS. IT WAS
IMPRESSION OF ULTRA SYSTEMS THAT "CONDUCTING A RESEARCH
PROGRAM SUCH AS THE VTE/MSF OPERATION IN THE U.S. WOULD
BE UNACCEPTABLE TO THE SAG." (NOTE: THESE BUSINESSMEN
HAD NOT REPEAT NOT DISCUSSED THIS DIRECTLY WITH PRINCE
MOHAMMED). REGARDLESS OF ACCURACY OF THIS OBSERVATION,

WE THINK LOCATION SHOULD BE SPELLED OUT IN THE PROPOSAL.
SEPTTEL ON ULTRA SYSTEMS COMMENTS RE VTE/MSF FACILITY
FOLLOWS.

7. STEP-BY-STEP NATURE OF PROJECT: THE NATURE OF THIS PROJECT DOES NOT PERMIT FINAL AGREEMENT ON EACH PHASE AT THE TIME ORIGINAL PROJECT AGREEMENT IS SIGNED. NEVERTHELESS, WE BELIEVE IT IS POSSIBLE TO SPELL OUT CLEARLY THE STEP-BY-STEP PROCESS AND TO INSURE THAT PRINCE MOHAMMED HAS AGREED -- IRREVOCABLY -- TO EACH STEP BEFORE THE USG COMMITS RESOURCES TO THAT PHASE. APPENDICES (COST PROPOSAL NOTES) TO BOTH APPENDIX A AND B STATE THAT THE ESTIMATE FOR THE WORK UNDER PHASE I IS CONSIDERED TO BE PRELIMINARY AND IS SUBJECT TO CHANGE BY MUTUAL AGREEMENT BETWEEN USDI AND SWCC AT ANY TIME DURING THE COURSE OF THE WORK." EVEN IF THE PROJECT IS REWORKED TO PROVIDE GREATER CLARITY, EMBASSY BELIEVES THIS LANGUAGE COULD WELL BE A BLUEPRINT FOR TROUBLE. DESPITE PRINCE MOHAMMED'S DESIRE FOR AN R AND D CENTER, HE MAY WELL NOT HAVE A FULL UNDERSTANDING OF THE SCOPE OF THE WORK, THE LOGISTICAL PROBLEMS, OR THE ACTUAL ROLE IN DECISION-MAKING WHICH HE AND SWCC WOULD PLAY. WE RECOMMEND THAT THE APPROVAL PROCESS BE SPELLED OUT CLEARLY, AND THAT SPECIFIC PROVISION BE MADE FOR CONSULTATION ON WORK IN PROGRESS AND FOR FORMAL APPROVAL -- WELL IN ADVANCE -- OF EACH PHASE OF THE PROJECT.

8. PRIVATE SECTOR PARTICIPATION: EMBASSY WELCOMES APPARENT DECISION THAT MOST OF THESE PROJECTS BE CARRIED OUT BY THE U.S. PRIVATE SECTOR. WE URGE, HOWEVER,, THAT PRIVATE FIRMS WITH POSSIBLE INTERESTS IN THIS AREA BE FULLY BRIEFED ON THE PROJECT BEFORE SUBMISSION TO THE SAUDIS. (WE ARE AWARE OF AT LEAST TWO PROPOSALS, INCLUDING ONE BY THE FIRM MENTIONED ABOVE). WE ALSO
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RECOMMEND THAT THE FINAL PROPOSAL SPELL OUT THE ANTICIPATED DEGREE OF INVOLVEMENT OF THE PRIVATE SECTOR UNEQUIVOCALLY. FOR EXAMPLE, PHASE 3 ON PAGE 3 OF APPENDIX A SHOULD PROVIDE A GLIMPSE INTO USDI INTENTIONS FOR PRIVATE SECTOR IN THAT PHASE OF THE PROJECT.

9. COMMENTS: A PRIME CONSIDERATION, IF WE ARE TO GET BACK AT ALL INTO THE CONTRACT MANAGEMENT OF DESALTING PROJECTS FOR THE SAG, IS (A) THAT A STRONG SENSE OF PURPOSE AND AUTHORITY EXIST WITH THE U.S. PARENT AGENCY; AND (B) THAT QUALIFIED PERSONNEL ARE IN SAUDI ARABIA AT ALL TIMES TO MONITOR THE PROJECT. THE SAUDIS HAVE UNHAPPY MEMORIES OF THE USG MANAGING CONSTRUCTION OF THE BURNS AND ROE MODEL WATER/POWER PLANT. THE USG WAS, BY NO MEANS, RESPONSIBLE FOR ALL THE SAUDI COMPLAINTS, BUT

WE SHOULD THIS TIME BE BETTER PREPARED TO COPE WITH THE
ADMINISTRATIVE HABITS AND BUREAUCRATIC STATES OF MIND
WE WILL BE FACING.
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